

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Location:
Alaska State Museum, Lecture Hall
395 Whittier Street
Juneau, Alaska

December 11, 2019

ATTENDANCE

Committee Present: Norm West, *chair*
Lorne Bretz
Tom Brice
Gayle Harbo
Allen Hippler
Rob Johnson
Acting Commissioner Mike Barnhill (*arrived late*)
Bob Williams

Committee Absent: Commissioner Kelly Tshibaka

Department of Revenue Staff Present:
Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Stephanie Alexander (board liaison)

Department of Administration Staff Present:
Kevin Worley (chief financial officer, Division of Retirement & Benefits (DRB))
Ajay Desai (DRB, DOA)
Emily Ricci (DRB, DOA)

Others Present:
Stuart Goering (assistant attorney general, Department of Law)
David Kershner (Buck)
Tonya Manning (Buck)
Scott Young (Buck)
Bill Detweiler (Gabriel Roeder Smith (GRS))
Paul Wood (GRS)
Nils Andreassen (Public, AML ED)
Richard Ward (Public, Segal Actuary)

I. CALL TO ORDER

CHAIR WEST called the meeting to order at 1:25pm.

II. ROLL CALL

Seven committee members were present at roll call to form a quorum.

III. PUBLIC MEETING NOTICE

Board liaison STEPHANIE ALEXANDER confirmed public meeting notice had been met.

IV. A. APPROVAL OF AGENDA

CHAIR WEST requested to amend the agenda adding Item VI. B. GRS Presentation.

MR. BRICE moved to approve the agenda as amended, adding Item VI. B. GRS Presentation.
MS. HARBO seconded the motion. The amended agenda, adding VI. B. GRS Presentation, was approved without objection.

B. APPROVAL OF MINUTES

MS. HARBO moved to approve the minutes of September 18, 2019. MR. WILLIAMS seconded the motion. The minutes of September 18, 2019 were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

There was no one present who wished to speak to the Committee.

CHAIR WEST requested Buck present the educational topics first and then present the valuations and actuary update. He believes this will assist in answering questions Trustees may have. There was no objection.

VII. EDUCATIONAL TOPICS

A. Actuarial Overview for Trustees

CHAIR WEST introduced DAVID KERSHNER, TONYA MANNING, and SCOTT YOUNG from Buck to provide the actuarial overview. MR. KERSHNER informed Trustees have been provided a copy of Buck's presentations in their packet. The first presentation is an educational session reviewing the actuarial valuation process, the fundamentals of retirement plan funding, the components of the annual contribution, funded ratio history, and best practices for funding public retirement plans.

MR. KERSHNER explained the four inputs to the annual actuarial valuation include plan provisions, census data, actuarial assumptions/methods, and asset values. The liabilities are the present value of the expected future benefits. The liabilities are compared to the assets

and the contribution rates are then calculated. MR. KERSHNER reviewed the key data elements collected for each participant during the valuation process. The valuation occurs annually for PERS/TRS DB and DCR, and every two years for JRS/NGNMRS. MR. KERSHNER reported KPMG audits the data. Buck tests the data for reasonableness compared to last year's data and addresses any questions or concerns to staff.

MS. MANNING advised the data collection is a critical aspect and the most time-consuming portion of the valuation process. Buck representatives and AJAY DESAI, DRB, recently discussed possible internal changes to streamline the data collection process for efficiency.

CHAIR WEST inquired regarding data collection of active members' spouse information. MR. KERSHNER explained data elements are not collected on active or terminated members' spouse information, but the spouse information is collected on retirees and disabled members. An assumption is made based on the experience study of the percentage of active members who are married when they retire. Additionally, there is a three-year age difference assumption. For example, if the participant is male, the assumption is the participant will have a female spouse who is two or three years younger at the participant's retirement.

CHAIR WEST commented obtaining actual data on spouse information on active and terminated members would be useful and accessible. The data may change before the participant retires, but the information would be accurate, instead of estimated. MS. MANNING reiterated the data process is lengthy and complicated. She believes it would better serve the plans to focus on the listed key elements to ensure accuracy. The spouse information before retirement does not have a heavy weighting on the overall results. Making an assumption of spouse information for active members is a typical practice for valuation.

CHAIR WEST commented on the counterintuitive swings that occurred during the transition from utilizing proxy data to actual data.

MR. KERSHNER continued the presentation and explained the relationship between the valuation and the fiscal year contribution determination. The 2018 valuation contained a four-year experience study and was used to set the FY 21 contributions. The calculations each year are based on assumptions. The plan experience shows the reasonable gains and losses from the plan's perspective. A gain occurs when liabilities are less than expected or assets are greater than expected. A loss occurs when liabilities are greater than expected or assets are less than expected. When a series of cumulative losses occur, the funded status is less than 100%. When a series of cumulative gains occur, the funded status is greater than 100%.

CHAIR WEST asked if the four-year experience study results are similar to the Social Security mortality rate tables. MS. MANNING informed the Social Security data is based on the entire general population, and typically reflects higher death rates or lower life expectancy compared to people covered by pension plans. The Society of Actuaries has now collected data on people who are covered by public pension plans and will be reviewed during the next four-year study. The three data sets include safety workers, general workers, and teachers,

which all have different rates of mortality and life expectancies. Social Security data is used for trends and improvement in mortality rates and longevity.

MR. KERSHNER reviewed the fundamentals of retirement plan funding:

- Accumulate sufficient assets to pay the benefits promised to participants and beneficiaries
- Allocate costs reasonably to the years in which the benefits are earned, actuarial cost method
- Minimize contribution volatility through the use of smoothing techniques
- Select actuarial assumptions as best estimates of long-term expectations, avoiding bias toward gains or losses
- May include an element of conservatism to protect against adverse experience

MR. KERSHNER explained the contributions plus the investment return must equal the benefits plus expenses over the life of the plan. The entry age normal actuarial cost method is used to calculate a cost as a percentage of every person's pay when they first enter the plan. The goal is to fund those benefits as a level percentage of every person's pay over their career. The normal cost is the value of the benefits that are accruing in the current year.

MS. HARBO asked if it would be accurate to say close to 70% of the funding for the Alaska pension payments come from employee contributions and interest earnings. She noted Buck previously reported those numbers. MR. KERSHNER disagreed. He indicated that calculation could be a theoretical account at the time of hire, where the percentage of pay might be 10% or 11%, and employees are contributing roughly 70% of the percentage of pay at-hire. He believes most of the funding for the pension payments come from the employer and the State. The employee contributions are set by statute and do not change. Any additional cost during the employee's tenure gets absorbed by the employer. All plans, except for NGNMRS, use a level percent of pay to allocate the costs.

MR. KERSHNER explained the key factors affecting members' pension benefit amounts are:

- Length of service
- Salary
- When member retires
- How long member / dependent live

MR. KERSHNER explained the key factors affecting members' healthcare benefits amounts are:

- Length of service
- Medical / Rx costs
- When member retires
- Number of dependents
- How long member / dependent live

MR. KERSHNER reviewed some of the key factors affecting the liabilities and costs associated with pension benefits and healthcare benefits. He discussed frequently asked questions, such as; "When is a plan deemed to be 'well-funded?'" MR. KERSHNER

expressed the importance of focusing on the plan's funded status trend and developing a strategy to obtain 100% funding over a reasonable period of time. It is also important to know the purpose of the measurement.

A Trustee asked if the PERS plan would be considered well-funded if it were an ERISA plan. MR. KERSHNER discussed private sector ERISA plans have different rules and different definitions with regards to being a well-funded plan. MS. MANNING explained the IRS has ranges of funding that correspond to different levels of concern for corporate plans. The levels range from minimal concern for plans over 90% funded to high levels of concern for plans under 60% funded.

MR. JOHNSON requested Buck provide a response to a member's question; "What is the funded status of our plan?" MR. KERSHNER responded he would answer the question by explaining the current funded status of the plan is 77% and the implemented strategy is expected to reach 100% funding within 25 years.

MS. HARBO believes the plan is well-funded because the 77% funding includes both pension and healthcare benefits. MR. KERSHNER agreed.

VI. VALUATIONS AND ACTUARY REVIEW UPDATE

MR. KERSHNER reviewed answers to questions asked by Trustees at the September meeting regarding the development of the additional State contributions rates for PERS and TRS. He provided Trustees a hard copy of the supplemental information. The only difference between the process for PERS and TRS is the contribution rate for employers for TRS is 12.56% of total pay, rather than the contribution rate for PERS of 22% of total pay. MR. KERSHNER provided a detailed explanation of the seven-step process that calculates the dollar amounts of the contributions and converts the calculations to a percentage of pay basis.

A. Preliminary 2019 Valuation Results

MR. KERSHNER highlighted the preliminary results of the 2019 valuations, ending June 30, 2019, provided to Trustees in a hard copy supplemental document. He noted a full presentation of the FY 19 valuations will occur at the next meeting. The asset returns were less than expected, which creates a loss to the plan. The liability experience was favorable to the plan, largely due to the medical and prescription drug claims experience, which creates a gain to the plan. The gains were larger than the losses and the net effect to the plan was favorable. The result is a higher funded ratio for this year compared to last year. The contribution rates are generally lower than last year, with the exception of TRS.

B. GRS Presentation

CHAIR WEST introduced BILL DETWEILER, GRS, to provide the GRS presentation. MR. DETWEILER informed Trustees he was previously employed by Buck a number of years ago and worked on the plan during that prior experience. Now that LESLIE THOMPSON, GRS, is retired, MR. DETWEILER will be working with PAUL WOOD, GRS, going forward. The

review process is on track with the standard timeline. He expressed appreciation to Buck for providing information on time. The GRS review of data test lives and the breakdown of the preliminary liabilities has begun. The new assumptions' one-year experience is being reviewed as part of overall monitoring. GRS continues to conduct monthly calls with Buck to discuss issues, concerns, and suggestions. GRS will present all of the findings to the Committee and the Board in March. A formal report will be issued subsequently.

MR. DETWEILER believes the medical claims experience from the increase in the drug rebates is driven by a combination of a new contract, national trends of competitive increases in rebates, as well as political and social pressures on drug companies. MR. DESAI believes the savings is due primarily to the implementation of EGWP, rather than to the change of the contract.

MR. JOHNSON commented his understanding is the 2005 statute prescribes the review actuary, GRS, to review the actuary's, Buck, material before it is disseminated or formalized. MR. JOHNSON noted the schedule seems to list delivery of Buck's draft valuations reports to the Administration and the Legislature without having the benefit of the review by GRS. MR. JOHNSON requested clarification if the presented schedule is compliant with the law. MR. KERSHNER believes the schedule MR. JOHNSON is referencing is a preliminary schedule and needs to be updated to reflect the current valuation timeline. MR. KERSHNER directed the Committee's attention to a detailed timeline on page 47 of the supplemental information and explained the process and next steps. Draft reports presented to the Legislature specifically emphasize the high-level summary information is in draft form. The final reports will be presented to the Committee for adoption by the Board presumably in June.

CHAIR WEST expressed appreciation for the presentation and material.

VIII. FUTURE MEETINGS

A. Calendar Review

The schedule of 2020-2021 meetings was provided in member packets.

B. Agenda Items - None

C. Requests / Follow-Ups - None

IX. ADJOURNMENT

MR. BRICE moved to adjourn the meeting. MR. WILLIAMS seconded the motion. The motion passed without objection.

The meeting was adjourned at 3:39pm.

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and presentation details, please refer to the recording, staff reports, and written presentation materials on file at the ARMB office.